

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other				Local Unit Name Lapeer County Road Commission		County Lapeer County	
Fiscal Year End December 31, 2006		Opinion Date May 21, 2007		Date Audit Report Submitted to State June 12, 2007			

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

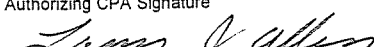
YES NO

Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:		Enclosed	Not Required (enter a brief justification)	
Financial Statements		<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations		<input checked="" type="checkbox"/>		
Other (Describe)		<input checked="" type="checkbox"/>	Report on Internal Control	
Certified Public Accountant (Firm Name) Stewart, Beauvais & Whipple PC			Telephone Number (810) 984-3829	
Street Address 1979 Holland Avenue			City Port Huron	State MI
			Zip 48060	
Authorizing CPA Signature 		Printed Name Larry J. Allen		License Number 1101008117

LAPEER COUNTY ROAD COMMISSION
A Component Unit of Lapeer County, Michigan

ANNUAL FINANCIAL REPORT
with Supplementary Information

FOR THE YEAR ENDED DECEMBER 31, 2006

Stewart,
Beauvais
& Whipple P.C.

CERTIFIED PUBLIC ACCOUNTANTS



LAPEER COUNTY ROAD COMMISSION
A Component Unit of Lapeer County, Michigan

DECEMBER 31, 2006
TABLE OF CONTENTS

	<u>Page Number</u>
Independent Auditor's Report	1
Management's Discussion and Analysis	3
Basic Financial Statements -	
Governmental Fund Balance Sheet/Statement of Net Assets	7
Statement of Governmental Fund Revenues, Expenditures and Changes in Fund Balance/Statement of Activities	8
Statement of Governmental Fund Revenues, Expenditures and Changes in Fund Balance - Budget and Actual	9
Notes to Financial Statements	10
Supplementary Information -	
Detail Schedule of Revenues and Other Sources	25
Detail Schedule of Expenditures	26
Schedule of Revenues, Expenditures and Changes in Fund Balance – By Fund Balance Sub-Accounts	27

INDEPENDENT AUDITOR'S REPORT

To the Board of County Road Commissioners
of Lapeer County
Lapeer, Michigan

We have audited the accompanying basic financial statements of the Lapeer County Road Commission, a component unit of Lapeer County, Michigan, as of December 31, 2006, and for the year then ended. These financial statements are the responsibility of the Road Commission management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Road Commission's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Road Commission of Lapeer County, Michigan, as of December 31, 2006, and the results of its operations for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report, dated May 21, 2007 on our consideration of the Road Commission of Lapeer County, Michigan's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*, and should be considered in assessing the results of our audit.

The accompanying management's discussion and analysis on pages 3-6 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements of the Lapeer County Road Commission. The schedules on pages 25-27 are presented for purposes of additional analysis and are not a required part of the basic financial statements of the Road Commission of Lapeer County, Michigan. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



Certified Public Accountants

May 21, 2007

LAPEER COUNTY ROAD COMMISSION

A Component Unit of Lapeer County, Michigan

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the Lapeer County Road Commission (the "Road Commission"), we offer readers of these financial statements this narrative, overview and analysis of the financial activities of the Road Commission for the year ended December 31, 2006. This discussion and analysis is designed to assist the reader in focusing on the significant financial issues and activities and to identify any significant changes in financial position.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to provide a basis of understanding of the Lapeer County Road Commission's basic statements. These basic financial statements comprise three components: (1) government-wide financial statements, (2) fund financial statements and (3) notes to the financial statements. Supplementary financial information is also provided for additional information purposes.

Government-Wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of the Road Commission finances, in a manner similar to a private-sector business.

The *statement of net assets* presents information on all of the Road Commission assets and liabilities, with the differences between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Road Commission is improving or deteriorating.

The *statement of activities* presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

Governmental Financial Statements

Unlike the government-wide financial statements, governmental financial statements focus on near-term inflows and outflows of spendable resources, as well as on the balances of spendable resources available at the end of the year. Such information may be useful in evaluating the Road Commission's near term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for the government-wide financial statements. By doing so, readers may better understand the long-term impact of the Road Commission's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balance provide a reconciliation to facilitate this comparison between governmental funds and the government-wide financial statements.

The Lapeer County Road Commission adopts an annual appropriated budget for the operating fund. A budgetary comparison statement has been provided to demonstrate compliance with this budget.

Notes to the Financial Statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 10-24 of this report.

FINANCIAL HIGHLIGHTS

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. As shown on the chart below, the Road Commission's assets exceeded liabilities by \$71,711,181 at the end of the year.

The net assets are separated into three major components, invested in capital assets net of related debt, which amounted to \$66,418,948 or 93% of net assets, restricted net assets of \$2,069,314 or 2.5% of net assets and finally unrestricted net assets of \$3,222,919 or 4.5%. The invested in capital assets of the Road Commission reflects its investment in capital assets (i.e., land, buildings, vehicles, equipment and infrastructure) less any related debt not funded by Townships. The Road Commission uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. The restricted net assets are the net assets that resulted from Primary and Local Road activities that are restricted by the Michigan Department of Transportation to be used on the respective Primary and Local roads. The remaining balance of unrestricted net assets may be used to meet the Road Commission's on-going obligations to citizens and creditors.

At the end of the current year, the Road Commission is able to report positive balances in all three categories (invested in capital assets net of related debt, restricted and unrestricted net assets). The Road Commission's combined net assets increased \$821,032 from a year ago.

The following table presents a comparison of the net assets at December 31, 2006 and 2005 in a condensed format:

Condensed Statement of Net Assets	<u>2006</u>	<u>2005</u>
Assets		
Current and other unrestricted assets	\$ 4,331,451	\$ 3,291,080
Due from townships – MTF note agreements	2,116,138	2,575,032
Capital Assets	<u>69,591,442</u>	<u>69,890,783</u>
Total Assets	<u>76,039,031</u>	<u>75,756,895</u>
Liabilities		
Long-term liabilities outstanding	3,172,494	3,947,212
Other liabilities	<u>1,155,356</u>	<u>919,534</u>
Total Liabilities	<u>4,327,850</u>	<u>4,866,746</u>
Net Assets:		
Invested in capital assets	66,418,948	65,943,571
Restricted	2,069,314	1,792,191
Unrestricted	<u>3,222,919</u>	<u>3,154,387</u>
Total net assets	<u>\$ 71,711,181</u>	<u>\$ 70,890,149</u>

The following table presents a comparison of Statement Activities at December 31, 2006 and 2005 in a condensed format:

Condensed Statement of Activities	<u>2006</u>	<u>2005</u>
Revenues		
Federal Sources	\$ 502,328	\$ 762,017
State Sources	7,530,374	7,983,567
Local Sources	1,585,075	1,668,921
Charges for Services and Other	<u>3,276,561</u>	<u>1,757,540</u>
	<u>12,894,338</u>	<u>12,172,045</u>
Expenses		
Maintenance	7,191,689	5,927,630
Administration	655,960	737,110
Equipment (net)	(243,388)	(498,172)
Other	473,372	918,965
Depreciation	<u>3,995,673</u>	<u>3,483,073</u>
	<u>12,073,306</u>	<u>10,568,606</u>
Change in Net Assets	<u>\$ 821,032</u>	<u>\$ 1,603,439</u>

Financial Analysis of Governmental Fund Statements

As noted earlier, the focus of the fund financial statements is to provide information on the near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Road Commission's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the year.

As of the end of the current year, the Road Commission reported an ending fund balance of \$3,271,325, an increase of \$815,585 from the prior year. \$1,196,410 of the fund balance constitutes unreserved fund balance, which is available for spending at the government's discretion. The remainder of the fund balance is reserved to indicate that the amount is not available for new spending because \$5,601 has been prepaid and \$2,069,314 has been reserved for expenditures related to primary and local roads as required by the Michigan Department of Transportation.

BUDGETARY HIGHLIGHTS

The Road Commission amended its 2006 budget to reflect status changes in preservation-structural improvement projects related to road and bridge projects. The total final budget was \$1,042,342 and \$902,712 for revenues and expenditures, respectively, less than the original budget primarily for these reasons. The actual 2006 revenues being \$2,041,090 more than the amended budget is basically the result of MTF revenue being greater than anticipated. The actual 2006 expenditures being \$1,924,769 more than the amended budget was the result of not amending the budget for new projects that initiated during the year as the result of available dollars.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets - The Road Commission had \$69,591,442 in capital assets at the end of the year. The reason for the increase from the previous year was the purchase of new Road equipment and the capitalization of heavy maintenance road and bridge projects funded by federal, state and local revenues.

The following table presents a summary of capital assets net of accumulated depreciation at December 31, 2006 and 2005:

	<u>2006</u>	<u>2005</u>
Land & Land Improvements	\$ 35,607,948	\$ 34,376,947
Depletable Assets	70,847	70,847
Buildings & Improvements	569,841	620,503
Equipment – Road	2,095,069	2,777,793
Infrastructure	31,247,737	32,032,310
Construction in Progress	<u>-</u>	<u>12,383</u>
Total Capital Assets	<u>\$ 69,591,442</u>	<u>\$ 69,890,783</u>

Additional information on the Road Commission's capital assets may be found in Note 7 to the financial statements on pages 17-18.

Long-Term Liabilities – At the end of the current year, the Road Commission had total MTF note debt outstanding of \$1,960,000. Through agreements with several townships this debt and related interest is to be paid by them. The debt is backed by the full faith and credit of Lapeer County. Additional information on the Road Commission's long-term liabilities may be found in Note 9 to the financial statements on pages 20-21.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The Road Commission major revenue streams continue to be stable. Long-term state fiscal crises could affect local townships ability to be able to fund preservation-structural improvements and projects as well as routine maintenance services. This could particularly affect our shared programs. It is anticipated that federal project revenue will decline; however, the exchange of federal dollars for local dollars should be approximately the same as 2006.

The 2007 budget projects an original reduction in expenditures waiting for possible approval of projects by the townships. As a result, an increase in fund balance of approximately \$1,849,808 is the preliminary projection for 2007.

CONTACTING THE ROAD COMMISSION MANAGEMENT

This financial report is designed to provide a general overview of the Lapeer County Road Commission's finances and to show accountability. Questions concerning any of the information provided in this report or request for additional financial information should be addressed to the Lapeer County Road Commission, 820 Davis Lake Road, Lapeer, Michigan, 48446.

BASIC FINANCIAL STATEMENTS

LAPEER COUNTY ROAD COMMISSION
A Component Unit of Lapeer County, Michigan

GOVERNMENTAL FUND BALANCE SHEET/STATEMENT OF NET ASSETS
DECEMBER 31, 2006

	Governmental Fund	Adjustments (Note 2)	Statement of Net Assets
ASSETS			
Cash and cash equivalents	\$ 2,156,457	\$ -	\$ 2,156,457
Due from other governmental units -			
State	1,169,249	-	1,169,249
Local	2,078,663	37,475	2,116,138
Accounts receivable	22,998	-	22,998
Prepaid expenditures/expenses	5,601	74,255	79,856
Inventory	902,891	-	902,891
Capital assets, net of accumulated depreciation			
Assets not being depreciated	-	35,607,948	35,607,948
Assets being depreciated	-	33,983,494	33,983,494
Total Assets	<u>\$ 6,335,859</u>	<u>\$ 69,703,172</u>	<u>\$ 76,039,031</u>

LIABILITIES AND FUND EQUITY

Liabilities:

Accounts payable	\$ 525,757	\$ -	\$ 525,757
Accrued liabilities	120,192	-	120,192
Accrued interest payable	-	53,446	53,446
Due to other governmental units	-	-	-
Advances and deposits	455,961	-	455,961
Deferred revenue	1,962,624	(1,962,624)	-
Noncurrent liabilities -			
Due within one year	-	808,474	808,474
Due in more than one year	-	2,364,020	2,364,020
Total Liabilities	<u>3,064,534</u>	<u>1,263,316</u>	<u>4,327,850</u>

Fund Balance:

Fund Balance -			
Reserved -			
Prepaid expenditures	5,601	(5,601)	-
Primary/Local Roads	2,069,314	(2,069,314)	-
Unreserved -			
Undesignated	1,196,410	(1,196,410)	-
Total Fund Balance	<u>3,271,325</u>	<u>(3,271,325)</u>	<u>-</u>
Total Liabilities and Fund Balance	<u>\$ 6,335,859</u>		

Net Assets:

Invested in capital assets, net of related debt	66,418,948	66,418,948
Restricted for Primary/Local Roads	2,069,314	2,069,314
Unrestricted	3,222,919	3,222,919
Total Net Assets	<u>\$ 71,711,181</u>	<u>\$ 71,711,181</u>

See Notes to Financial Statements

LAPEER COUNTY ROAD COMMISSION
A Component Unit of Lapeer County, Michigan

**STATEMENT OF GOVERNMENTAL FUND REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE/STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2006**

	Governmental Fund	Adjustments (Note 2)	Statement of Activities
Revenues:			
Permits	\$ 125,752	\$ -	\$ 125,752
Intergovernmental -			
Federal sources	502,328	-	502,328
State sources	7,530,374	-	7,530,374
Local sources	2,081,755	(496,680)	1,585,075
Charges for services	2,921,090	-	2,921,090
Interest and rents	90,735	-	90,735
Other	138,984	-	138,984
Total Revenues	<u>13,391,018</u>	<u>(496,680)</u>	<u>12,894,338</u>
Expenditures/Expenses:			
Current -			
Primary preservation - structural improvements	2,467,174	(2,467,174)	-
Local preservation - structural improvements	1,157,359	(1,157,359)	-
Primary maintenance	1,656,431	(2,400)	1,654,031
Local maintenance	2,891,269	9,982	2,901,251
State maintenance	2,636,407	-	2,636,407
Administrative	681,541	(25,581)	655,960
Equipment	2,514,798	(791,987)	1,722,811
Less equipment rental			
charged to other activities	(1,966,199)	-	(1,966,199)
Depreciation	-	3,995,673	3,995,673
Other	337,099	-	337,099
Capital Outlay	88,803	(88,803)	-
Less: depreciation credit			
and retirements	(822,189)	822,189	-
Debt Service -			
Principal	773,838	(773,838)	-
Interest	159,102	(22,829)	136,273
Total Expenditures/Expenses	<u>12,575,433</u>	<u>(502,127)</u>	<u>12,073,306</u>
Excess of revenues and other sources over (under) expenditures/expenses	815,585	5,447	821,032
Fund Balance/Net Assets at January 1, 2006	<u>2,455,740</u>	<u>68,434,409</u>	<u>70,890,149</u>
Fund Balance/Net Assets at December 31, 2006	<u><u>\$ 3,271,325</u></u>	<u><u>\$ 68,439,856</u></u>	<u><u>\$ 71,711,181</u></u>

See Notes to Financial Statements

LAPEER COUNTY ROAD COMMISSION
A Component Unit of Lapeer County, Michigan

**STATEMENT OF GOVERNMENTAL FUND REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
FOR THE YEAR ENDED DECEMBER 31, 2006**

	Original Budget	Final Budget	Actual	Variance with Amended Budget Positive (Negative)
Revenues:				
Permits	\$ 150,000	\$ 131,590	\$ 125,752	\$(5,838)
Intergovernmental -				
Federal sources	1,180,000	1,069,704	502,328	(567,376)
State sources	6,500,000	6,217,439	7,530,374	1,312,935
Local sources	2,102,270	1,713,715	2,081,755	368,040
Charges for services	2,400,000	2,075,134	2,921,090	845,956
Interest and rents	40,000	67,054	90,735	23,681
Other	20,000	75,292	138,984	63,692
Total Revenues	<u>12,392,270</u>	<u>11,349,928</u>	<u>13,391,018</u>	<u>2,041,090</u>
Expenditures:				
Current -				
Primary preservation - structural improvements	2,936,116	1,603,675	2,467,174	(863,499)
Local preservation - structural improvements	2,384,270	901,525	1,157,359	(255,834)
Primary maintenance	1,345,119	1,572,935	1,656,431	(83,496)
Local maintenance	1,935,601	3,104,656	2,891,269	213,387
State maintenance	1,000,000	2,130,465	2,636,407	(505,942)
Administrative	780,000	846,810	681,541	165,269
Equipment - net	150,000	260,000	548,599	(288,599)
Other	20,000	1,366	337,099	(335,733)
Capital Outlay - net	100,000	(703,708)	(733,386)	29,678
Debt Service	902,270	932,940	932,940	-
Total Expenditures	<u>11,553,376</u>	<u>10,650,664</u>	<u>12,575,433</u>	<u>(1,924,769)</u>
Excess of revenues and other sources over (under) expenditures	838,894	699,264	815,585	116,321
Fund Balance at January 1, 2006	<u>2,455,740</u>	<u>2,455,740</u>	<u>2,455,740</u>	<u>-</u>
Fund Balance at December 31, 2006	<u>\$ 3,294,634</u>	<u>\$ 3,155,004</u>	<u>\$ 3,271,325</u>	<u>\$ 116,321</u>

See Notes to Financial Statements

NOTES TO FINANCIAL STATEMENTS

LAPEER COUNTY ROAD COMMISSION
A Component Unit of Lapeer County, Michigan

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The financial statements of the Lapeer County Road Commission, a component unit of the County of Lapeer, Michigan, have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to governmental entities. The more significant accounting policies are described as follows:

A. Description of Road Commission Operations –

The Lapeer County Road Fund, referred to as the Road Commission, is a Component Unit of the County of Lapeer, Michigan, and is used to control the expenditure of revenues from the State distribution of gas and weight taxes, federal awards, reimbursements from the Department of State Highways for work performed by the County on State trunklines and contributions from other local units of government (townships) for work performed by the Road Commission work force. The Road Fund is the only fund of the Road Commission.

The Road Commission which is established pursuant to the County Road Law (MCL224.1) operates under an elected Board of three (3) County Road Commissioners who establish policies and review operations of the Road Commission. The Road Commission provides services to eighteen (18) Townships in Lapeer County and maintains over 1,400 miles of state, local and primary roads.

B. Measurement Focus, Basis of Accounting and Financial Statement Presentation –

The government-wide financial statement columns (i.e., statement of net assets and statement of activities) are reported using the economic resource measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grant and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met.

The governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized when it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the year. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

C. Assets, Liabilities, and Fund Balance or Net Assets –

Cash And Cash Equivalents - Cash equivalents are short-term investments that are readily convertible to cash or have a maturity date of ninety days or less from the date of purchase. Cash equivalents include investment trust funds and are recorded at cost which approximates market value. The investment trust funds have the general characteristics of demand deposit accounts in that the Road Commission may deposit additional cash at any time and effectively may withdraw cash at any time without prior notice or penalty.

LAPEER COUNTY ROAD COMMISSION
A Component Unit of Lapeer County, Michigan

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (cont'd):

Inventories - Inventories of road materials and equipment parts are recognized using the consumption method (inventories are recorded as expenditures when they are used). Inventories are stated at the lower of first-in, first-out (cost or market) or at average cost.

Deferred Federal And State Aid – On certain federal and state funded construction projects in the County and administered by the Michigan Department of Transportation, the Road Commission is required to pay the local portion of the project costs at the start of the project. The local portion is recorded as Deferred Aid at the time of payment. The expenditure is recognized upon notice from the Michigan Department of Transportation that construction has been completed.

Prepaid Items – Certain payments to vendors (particularly for insurance coverage) reflect costs that are applicable to a future period and are recorded as prepaid items.

Capital Assets – Capital assets, which include property, plant, equipment, and infrastructure are reported in the government-wide (statement of net assets) financial statements. Capital assets for land, buildings and improvements and all equipment except road equipment are defined by the Road Commission as assets with an estimated useful life in excess of 2 years. Road equipment is capitalized as defined by the Michigan Department of Transportation without consideration of minimum cost. Capital assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are recorded in the governmental fund statements as capital expenditures at the time of purchase.

Depreciation is computed on the sum-of-the-years digits method for road equipment, and straight-line method for all other capital assets over the estimated useful life of the related asset.

The estimated useful lives are as follows:

Buildings and Improvements	40 years
Equipment	5- 8 years
Roads	8-30 years
Bridges	25-50 years
Traffic signals	15 years

Infrastructure is reported retrospectively from 1980, except for right-of-ways, bridges, and traffic signals which are required to be reported despite the date of purchase. Roads are removed from the capital assets at the time the group of individually recorded roads have been fully depreciated.

Depletion is calculated as the amount of prorated cost or other indicated value assigned to the extracted portion of a natural resource (gravel).

LAPEER COUNTY ROAD COMMISSION
A Component Unit of Lapeer County, Michigan

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (cont'd):

The Uniform Accounting Procedures Manual for Michigan County Road Commissions provides for recording depreciation and depletion in the governmental fund statements as a charge to various expenditure accounts, and a credit to a depreciation/depletion credit account. Accordingly, the annual depreciation/depletion expenditures do not affect the available operating equity of the governmental fund statements.

Advance From The State Of Michigan - The State of Michigan advances funds on a State maintenance agreement it has with the Lapeer County Road Commission for equipment purchased and used in performance of the specified maintenance. This advance is considered a current liability because it is subject to repayment annually upon audit by the State of Michigan.

Accrued Vacation And Sick - In accordance with contracts negotiated with the various employee groups of the Road Commission, employees have a vested right upon termination to receive compensation for accumulated sick and vacation leave under formulas and conditions specified in the contracts. Employees are compensated 100% of their vested accumulated vacation leave upon termination for any reason, and for their vested sick leave upon retirement or death. All amounts vested are accrued in the government-wide statements (statement of net assets).

Deferred Revenues – In both the government-wide and the fund financial statements revenue received or recorded before earned is recorded as deferred revenue. In addition, in the governmental fund statements revenues that are not both measurable and available are recorded as deferred revenues.

Equipment Rentals - The Michigan Department of Transportation requires that the cost of operating equipment, including depreciation, be charged (allocated) to the various activities. The effect of this allocation is offset to equipment expenditures/expenses.

Long-Term Obligations – In the government-wide financial statements (statement of net assets), long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities. MTF Note premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. MTF notes payable are reported net of the applicable premium or discount. Issuance costs are reported as deferred charges and amortized over the term of the related debt. As permitted by GASB Statement No. 34, the Road Commission has elected to apply the provisions related to bond premiums discounts, and issuance costs on a prospective basis.

Estimates - In preparing financial statements in conformity with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions that affect the reporting amount of assets and liabilities, the disclosures of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenditures/expenses during the reporting period. Actual results could differ from those estimates.

LAPEER COUNTY ROAD COMMISSION
A Component Unit of Lapeer County, Michigan

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2006

NOTE 2 – RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS:

- A.** Explanation of differences between the governmental fund balance sheet and the government-wide statement of net assets (Page 7).

Fund Balance – governmental fund	\$ 3,271,325
Capital assets used in the governmental fund statements that are not financial resources and therefore not reported in the governmental fund financial statements	
Add – capital assets	97,911,565
Deduct – accumulated depreciation	(28,320,123)
Long-term liabilities that are not due in the current period therefore not reported in the governmental fund statements	(3,172,494)
Accrued interest payable on long-term liabilities not reported in the governmental fund statements	(53,446)
Prepaid expenses not reported in the governmental fund statements	74,255
Accrued interest receivable due from Townships not reported in the governmental fund statements	37,475
Revenues that have been deferred in the governmental fund statements because they are not “available”	<u>1,962,624</u>
Net Assets	<u>\$71,711,181</u>

- B.** Explanation of differences between the governmental fund statement of revenues, expenditures and changes in fund balance and the government-wide statement of activities (Page 8).

Excess of revenues over (under) expenditures – governmental fund statement	\$ 815,585
The governmental fund statements report capital outlay as expenditures, however, in the government-wide Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense	
Add – capital outlay and infrastructure	3,700,953
Deduct – retirements	(4,621)
Deduct – depreciation	(3,995,673)

LAPEER COUNTY ROAD COMMISSION
A Component Unit of Lapeer County, Michigan

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2006

NOTE 2 – RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS – (cont’d):

Revenues deferred in the governmental fund statements because they do not provide current financial resources that are reported in the government-wide Statement of Activities	\$(487,376)
Principal payments on long-term liabilities are reported as an expenditure in the governmental fund statements, but not in the government-wide Statement of Activities (where it reduces the long-term liability)	773,838
Township contribution adjustment for accrual reported in the government-wide Statement of Activities when the revenue is earned and reported in the governmental fund statements only when the revenue is available	(9,304)
Interest expense adjustment for accrual reported in the government-wide Statement of Activities when the liability is incurred and reported in the governmental fund statements only when payment is due	22,829
Prepaid expense adjustment not reported in the governmental fund statements	3,921
Accrued vacation and sick time expenses not reported in the governmental fund statements because they will not be paid with current financial resources	<u>880</u>
Change in Net Assets	<u>\$ 821,032</u>

NOTE 3 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY:

Auditing and Reporting –

The audit was performed in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in ***Government Auditing Standards***, issued by the Comptroller General of the United States as described in the Independent Auditor's Report, but, also with the standards as provided in Act No. 71 of Public Acts of 1919, Section 21.41 of the Michigan Compiled Laws.

The financial statements were prepared in accordance with accounting principles generally accepted in the United States of America as described in the Independent Auditor's Report, but also with applicable rules of the Michigan State Department of Transportation.

LAPEER COUNTY ROAD COMMISSION
A Component Unit of Lapeer County, Michigan

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2006

NOTE 3 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY – (cont’d):

Budgetary Compliance –

The Road Commission Manager prepares from data submitted by the administrative staff a proposed operating budget for the calendar year commencing January 1. The operating budget includes proposed expenditures and resources to finance them.

Prior to December 31, the proposed budget is presented to the Board of County Road Commissioners. The Board holds a public hearing and may add to, subtract from, or change appropriations. The budget is then legally enacted through passage of a Board of County Road Commissioners Resolution. After the budget is adopted, the Manager is authorized to transfer up to 25% of a line item amount of the adopted budget, subject to the approval of the Board of County Road Commissioners at the Board meeting following the amendments. The Manager is also authorized to transfer amounts between items of the adopted budget at year-end to reflect the effects of the distribution of the distributive account.

The Road Commission’s approved budget was adopted at the expenditure control level by activity. This is the legally enacted level under the State of Michigan Uniform Budgeting and Accounting Act.

Michigan Public Act 621 of 1978, Section 18(1), as amended, provides that the government unit shall not incur expenditures in excess of the amount appropriated. During the year ended December 31, 2006, the Road Commission had expenditures that exceeded the appropriation as reported on the Statement of Governmental Fund Revenues, Expenditures and Changes in Fund Balance – Budget and Actual.

NOTE 4 - DEPOSITS AND INVESTMENTS:

As of December 31, 2006, the carrying amount of deposits and investments is as follows:

Cash on Hand	
Petty Cash	\$ 350
Deposits with Financial Institutions	
Imprest Checking	32,820
Checking maintained by County Treasurer	10,677
Investments	
Government Investment Trusts	<u>2,112,610</u>
	<u>\$ 2,156,457</u>

The Uniform Accounting Procedures Manual for Michigan County Road Commissions provides that the County Treasurer maintain the cash of the Road Commission. All Road Commission receipts are deposited with the Lapeer County Treasurer’s Office, and in order to make disbursements, the Lapeer County Road Commission requests the County Treasurer to transfer the required funds to an imprest vendor or payroll checking account. The investing of cash is performed by the County Treasurer.

LAPEER COUNTY ROAD COMMISSION
A Component Unit of Lapeer County, Michigan

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2006

NOTE 4 - DEPOSITS AND INVESTMENTS – (cont'd):

Custodial Credit Risk – Deposits - Custodial credit risk for deposits is the risk that in the event of a bank failure, the Road Commission's deposits may not be returned. As an indication of the level of deposit custodial credit risk assumed by the Road Commission, as of December 31, 2006, the book value of the Road Commission's deposits was \$43,497 with a corresponding bank balance of \$66,303. The total bank balance was covered by Federal Deposit Insurance Corporation (FDIC).

Custodial Credit Risk - Investments - is the risk that in the event of the failure of the counterparty, the County will not be able to recover the value of its investments that are in the possession of another side party. The County's policy requires securities may be held by a third party custodian designated by the treasurer and evidenced by safekeeping receipts. As of December 31, 2006, the County Treasurer on behalf of the Road Commission had \$2,112,610 invested in governmental investment trust funds. The investment trust funds carry an Aaa (Moody's) rating. The investment trust funds seek to preserve the value of investment at \$1 per unit. The County's investment policy is silent on the use of rated versus unrated investment.

Concentration of Credit Risk - Investments - is the risk of loss attributed to the magnitude of the County's investment in a single issuer. The County's investment policy requires diversification by security type but does not place a fixed percentage limit for any one issuer. As of December 31, 2006, the County had 100% of the Road Commission's investments in investment trust funds with one bank.

Interest Rate Risk – Investment - Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. At year-end, the County's investments on behalf of the Road Commission in investment trust funds are considered to have a maturity date of less than one year since they have the general characteristics of demand deposit accounts in that the County, on behalf of the Road Commission, may deposit additional cash at any time and effectively may withdraw cash at any time without prior notice or penalty.

NOTE 5 - TOWNSHIP NOTE PROGRAMS:

The Due From Other Governmental Units – Local includes Township Note Programs in the amount of \$1,962,624 at December 31, 2006, which represents the amount that the Townships are participating in repayment of 1997, 2000 and 2002 MTF notes. A corresponding amount has been recorded as deferred revenue in the governmental fund statements and will be recognized as revenue as payments from the Townships become available.

NOTE 6 - FEDERAL AWARDS:

It is required by the Michigan Department of Transportation (MDOT) that Road Commissions report total federal awards for Highway Research, Planning and Construction pertaining to their County. However, only the federal financial assistance applicable to force account expenditures is required to be audited for compliance under the Single Audit Act through Road Commission procurement. The reason for this requirement is that the Road Commission is required to have accounting and administrative control over the force account portion while the balance is administered by MDOT.

LAPEER COUNTY ROAD COMMISSION
A Component Unit of Lapeer County, Michigan

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2006

NOTE 6 – FEDERAL AWARDS – (cont'd):

During the year ended December 31, 2006, the Road Commission of Lapeer County expended less than \$500,000 of force account expenditures applicable to federal awards (local force revenue). As a result, an audit for compliance under the Single Audit Act was not performed.

Federal revenues of \$502,328 represent Department of Transportation Federal Highway grant money expended on public road improvement projects under Federal Programs, which were administered by the Michigan Department of Transportation, however, are required to be reported by the Road Commission.

NOTE 7 – INVENTORY:

The inventory balance of \$902,891 at December 31, 2006 consisted of \$637,949 of road material and \$264,942 of equipment parts and materials.

NOTE 8 – CAPITAL ASSETS:

Capital assets activity for the current year was as follows:

	Balance January 1, 2006	Additions	Deletions	Adjustments and Removals	Balance December 31, 2006
Capital Assets, not being depreciated –					
Land	\$ 159,507	\$ -	\$ -	\$ -	\$ 159,507
Land improvements	34,037,394	1,231,001	-	-	35,268,395
Right of Ways		180,046	-	-	-
180,046					
Construction in Progress	<u>12,383</u>	<u>(12,383)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Capital Assets, not being depreciated	<u>34,389,330</u>	<u>1,218,618</u>	<u>-</u>	<u>-</u>	<u>35,607,948</u>
Capital Assets, being depreciated –					
Buildings and improvements	1,857,834	-	-	-	1,857,834
Road Equipment	7,237,194	88,803	609,982	-	6,716,015
Shop Equipment	154,591	-	-	-	154,591
Office Equipment	507,095	-	-	-	507,095
Engineering equipment	70,700	-	-	-	70,700
Infrastructure –					
Roads	39,929,704	1,846,501	-	(1,928,824)	39,847,381
Bridges	12,314,117	547,031	-	-	12,861,148
Traffic signals	83,723	-	-	-	83,723
Depletable assets –					
Gravel pits	<u>205,130</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>205,130</u>
	<u>62,360,088</u>	<u>2,482,335</u>	<u>609,982</u>	<u>(1,928,824)</u>	<u>62,303,617</u>

LAPEER COUNTY ROAD COMMISSION
A Component Unit of Lapeer County, Michigan

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2006

NOTE 8 – CAPITAL ASSETS – (cont'd):

	Balance January 1, 2006	Additions	Deletions	Adjustments and Removals	Balance December 31, 2006
Less – accumulated depreciation for –					
Buildings and improvements	\$ 1,237,331	\$ 50,662	\$ -	\$ -	\$ 1,287,993
Road Equipment	4,459,401	766,906	605,361	-	4,620,946
Shop Equipment	154,591	-	-	-	154,591
Office Equipment	507,095	-	-	-	507,095
Engineering Equipment	70,700	-	-	-	70,700
Infrastructure –					
Roads	16,956,783	2,911,006	-	(1,928,824)	17,938,965
Bridges	3,301,817	262,329	-	-	3,564,146
Traffic signals	36,634	4,770	-	-	41,404
Depletable Assets	<u>134,283</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>134,283</u>
	<u>26,858,635</u>	<u>3,995,673</u>	<u>605,361</u>	<u>(1,928,824)</u>	<u>28,320,123</u>
 Total Capital Assets, being depreciated, net	 <u>35,501,453</u>	 <u>(1,513,338)</u>	 <u>4,621</u>	 <u>-</u>	 <u>33,983,494</u>
 Governmental activity capital assets, net	 <u>\$ 69,890,783</u>	 <u>\$(294,720)</u>	 <u>\$ 4,621</u>	 <u>\$ -</u>	 <u>\$69,591,442</u>

Total depreciation for the year ended December 31, 2006 was \$3,995,673.

NOTE 9 - ADVANCES AND DEPOSITS:

Advances and Deposits of \$455,961 at December 31, 2006, represent money advanced by the State of Michigan, under the maintenance contract the Road Commission has with the State for equipment purchases, advances and deposits from Townships, contractors and individuals for various projects. The State advance is adjusted annually by the State, and must be repaid if the maintenance contract is cancelled. The following is a summary of the balance by source and use:

State -	
Equipment	<u>\$ 220,933</u>
Local -	
Other Governmental Units -	
Township advances	6,066
Contractors and Individuals -	
Permits	131,580
Other	<u>97,382</u>
	<u>235,028</u>
	 <u>\$ 455,961</u>

LAPEER COUNTY ROAD COMMISSION
A Component Unit of Lapeer County, Michigan

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2006

NOTE 10 – LONG-TERM LIABILITIES:

The Road Commission has the following long-term liabilities outstanding at December 31, 2006:

	Balance January 1, 2006	Additions	Reductions	Balance December 31, 2006	Due Within One Year
1997 MTF Note	\$ 140,000	\$ -	\$ 70,000	\$ 70,000	\$ 70,000
2000 MTF Note	1,100,000	-	220,000	880,000	220,000
2000 MTF Note Series B	350,000	-	70,000	280,000	70,000
2002 MTF Note	300,000	-	50,000	250,000	50,000
2002 MTF Note Series B	560,000	-	80,000	480,000	80,000
Installment Note	1,419,191	-	283,838	1,135,353	283,838
Accrued vacation	<u>78,021</u>	<u>88,730</u>	<u>89,610</u>	<u>77,141</u>	<u>34,636</u>
	<u>\$3,947,212</u>	<u>\$ 88,730</u>	<u>\$ 863,448</u>	<u>\$3,172,494</u>	<u>\$ 808,474</u>

Significant details regarding outstanding long-term liabilities are presented below:

MTF Note – Series 1997

The Road Commission is obligated for Michigan Transportation Fund Notes, Series 1997, dated October 1, 1997, in the original amount of \$700,000. The payments are due in annual installments on August 1 of \$70,000 through 2007, with interest of 4.9% due on February 1 and August 1. At December 31, 2006, the outstanding principal balance is \$70,000.

MTF Note – Series 2000

The Road Commission is obligated for Michigan Transportation Fund Notes, Series 2000, dated May 11, 2000, in the original amount of \$2,200,000. Principal payments are due in annual installments on August 1 of \$220,000 through 2010, with interest ranging from 4.9% to 5.0% due on February 1 and August 1 of each year. At December 31, 2006, the outstanding principal balance is \$880,000.

MTF Note – Series 2000 B

The Road Commission is also obligated for Michigan Transportation Fund Notes, Series 2000B, dated November 21, 2000 in the original amount of \$700,000. Principal payments are due in annual installments on August 1 of \$70,000 through 2010, with interest ranging from 4.85% to 5.0% due on February 1 and August 1 of each year. At December 31, 2006, the outstanding balance is \$280,000.

LAPEER COUNTY ROAD COMMISSION
A Component Unit of Lapeer County, Michigan

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2006

NOTE 10 – LONG-TERM LIABILITIES – (cont'd):

MTF Note – Series 2002

The Road Commission is obligated for Michigan Transportation Fund Notes, Series 2002, dated April 1, 2002, in the original amount of \$500,000. Principal payments are due in annual installments on August 1 of \$50,000 through 2011, with interest ranging from 4.15% to 4.60% due on February 1 and August 1 of each year. At December 31, 2006, the outstanding principal balance is \$250,000.

MTF Note – Series 2002 B

The Road Commission is also obligated for Michigan Transportation Fund Notes, Series 2002B, dated May 15, 2002 in the original amount of \$800,000. Principal payments are due in annual installments on August 1 of \$80,000 through 2012, with interest ranging from 3.50% to 4.10% due on February 1 and August 1 of each year. At December 31, 2006 the outstanding balance is \$480,000.

Installment Purchase Agreements -

The Road Commission entered into an Installment Purchase Agreement in connection with the purchase of 12 truck cabs and chassis, dated May 5, 2005, in the original amount of \$884,314. The payments are due in annual installments on May 5 of \$176,862 through 2010, with interest of 3.3%, due May 5 of each year. At December 31, 2006, the outstanding principal balance was \$707,451.

The Road Commission entered into an Installment Purchase Agreement in connection with the purchase of 12 truck boxes, dated November 17, 2005 in the original amount of \$534,877. The payments are due in annual installments on November 11 of \$106,975 through 2010, with interest of 3.3% due May 5 of each year. At December 31, 2006, the outstanding principal balance was \$427,902.

Accrued Vacation -

In accordance with contracts negotiated with the various employee groups of the Road Commission, individual employees have a vested right upon termination of employment to receive payment for unused vacation under formulas and conditions specified in the contracts. The dollar amount of these vested rights, which has been accrued on the financial statements in the government-wide statements, amounts to approximately \$77,141 at December 31, 2006.

LAPEER COUNTY ROAD COMMISSION
A Component Unit of Lapeer County, Michigan

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2006

NOTE 10 – LONG-TERM LIABILITIES – (cont'd):

The annual requirements to amortize MTF Notes outstanding at December 31, 2006 are as follows:

	<u>MTF Note - Series 1997</u>		<u>MTF Notes-Series 2000</u>		<u>MTF Notes – Series 2002</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 70,000	\$ 3,430	\$ 290,000	\$ 57,350	\$ 130,000	\$ 29,160	\$ 579,940
2008	-	-	290,000	43,175	130,000	24,110	487,285
2009	-	-	290,000	28,965	130,000	19,234	468,199
2010	-	-	290,000	14,500	130,000	14,125	448,625
2011	-	-	-	-	130,000	7,630	137,630
2012	-	-	-	-	80,000	4,430	84,430
	<u>\$ 70,000</u>	<u>\$ 3,430</u>	<u>\$1,160,000</u>	<u>\$ 143,990</u>	<u>\$ 730,000</u>	<u>\$ 98,689</u>	<u>\$ 2,206,109</u>

The annual requirements to amortize Installment Purchase Contracts outstanding at December 31, 2006 are as follows:

<u>Year Ending</u> <u>December 31,</u>	<u>Principal</u>	<u>Interest</u>
2007	\$ 283,839	\$ 37,466
2008	283,838	28,100
2009	283,838	18,733
2010	<u>283,838</u>	<u>9,367</u>
	<u>\$ 1,135,353</u>	<u>\$ 93,666</u>

NOTE 11 - EMPLOYEE PENSION PLAN:

Plan Description -

The Lapeer County Road Commission participates in the Michigan Municipal Employees' Retirement System (MERS); an agent multiple employer state-wide, public employee defined benefit pension plan created under Public Act 135 of 1945, and now operates under Public Act 220 of 1996, and the MERS Plan Document as revised. MERS was established to provide retirement, survivor and disability benefits on a voluntary basis to the State of Michigan's local government employees. Act No. 427 of the Public Acts of 1984, as amended, establishes and amends the benefit provisions of the participants in MERS. The Municipal Employees Retirement System of Michigan issues a publicly available financial report that includes financial statements and required supplementary information for MERS. That report may be obtained by writing to the Municipal Employees Retirement System of Michigan, 447 N. Canal Road, Lansing, Michigan 48917 or by calling (800) 767-6377.

LAPEER COUNTY ROAD COMMISSION
A Component Unit of Lapeer County, Michigan

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2006

NOTE 11 - EMPLOYEE PENSION PLAN – (cont'd):

Funding Policy -

The plan adopted by the Board of County Road Commissioners requires employees to contribute 0%-5% of their annual compensation depending on their job category. The Road Commission is required to contribute at an actuarially determined rate; the weighted average rate for 2006 was 0% - 13.41% depending on employees' job category. The contribution requirements of plan members and the Road Commission are established and may be amended by the Road Commission, depending on the MERS contribution program adopted by the Road Commission.

Annual Pension Costs -

For the year ended December 31, 2006, the Road Commission's annual pension cost of \$346,194 for MERS was equal to the Road Commission's required and actual contributions. The required contribution was determined as part of the December 31, 2003 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions include (a) a rate of return on the investment of present and future assets of 8% per year compounded annually, (b) projected salary increases of 4.5% per year compounded annually, attributable to inflation, (c) additional projected salary increases ranging from 0% to 4.16% per year, depending on age, attributable to seniority/merit, and (d) the assumption that benefits will increase 2.5% per year (annually) after retirement, for persons under Benefit B-1 or B-2. The actuarial value of MERS assets was determined using techniques on a basis of evaluation method that assumes the funds earn the expected rate of return (8%) and includes as an adjustment to reflect market value. Unfunded actuarial accrued liabilities are amortized as a level percent of payroll over a period of 30 years.

Three-Year Trend Information

<u>Fiscal Year</u> <u>Ending</u> <u>December 31,</u>	<u>Annual Pension</u> <u>Costs (APC)</u>	<u>Percentage</u> <u>of APC</u> <u>Contribution</u>	<u>Net Pension</u> <u>Obligation</u>
2004	\$ 272,960	100 %	-
2005	310,630	100	-
2006	346,194	100	-

Schedule of Funding Progress

<u>Actuarial</u> <u>Valuation</u> <u>Date</u>	<u>Actuarial</u> <u>Value of</u> <u>Assets</u> <u>(a)</u>	<u>Accrued</u> <u>Liability</u> <u>(AAL) Entry Age</u> <u>(b)</u>	<u>Actuarial</u> <u>(Overfunded)</u> <u>Accrued Liability</u> <u>(UAAL)</u> <u>(b-a)</u>	<u>Unfunded</u> <u>Funded</u> <u>Ratio</u> <u>(AAL)</u> <u>(a/b)</u>	<u>Covered</u> <u>Payroll</u> <u>(c)</u>	<u>UAAL</u> <u>as a % of</u> <u>Covered Payroll</u> <u>[(b-a)/c]</u>
2003	6,646,644	10,124,306	3,477,662	66	2,426,310	143 %
2004	6,906,381	10,846,781	3,940,400	64	2,512,472	157
2005	7,150,983	11,708,346	4,557,363	61	2,804,359	163

LAPEER COUNTY ROAD COMMISSION
A Component Unit of Lapeer County, Michigan

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2006

NOTE 12 - POSTEMPLOYMENT BENEFITS:

In addition to the pension benefits described in Note 11, the Lapeer County Road Commission provides postemployment health care, limited optical/dental reimbursement, prescription reimbursement, and life insurance to eligible employees who retire from the Road Commission on or after attaining retirement age with at least ten years of service. These expenditures are recognized on a pay-as-you-go basis. For the year ended December 31, 2006, health care costs amounted to approximately \$353,745 for 40 eligible participants, \$22,427 for optical/dental reimbursement for approximately 31 eligible participants, \$21,648 for prescription reimbursement for approximately 32 eligible participants and \$11,992 for life insurance costs for approximately 34 eligible participants.

NOTE 13 – SUMMARY OF DISCLOSURE OF SIGNIFICANT CONTINGENCIES:

In the normal course of its operations, the Lapeer County Road Commission often becomes a party to various claims and lawsuits. In the opinion of the Road Commission's legal counsel, if any of these claims should result in an unfavorable resolution to the Road Commission, the Road Commission's liability would be limited to its deductible under insurance policies. The insurer would pay the losses, and there should be no material effect on the financial position of the Road Commission.

Also as a part of its trunkline maintenance agreement with the State of Michigan, the Road Commission's costs charged to the State are subject to audit. The amounts, if any, which may have to be paid back to the State, cannot be determined at this time, although the Road Commission expects such amounts, if any, to be immaterial.

NOTE 14 - RISK MANAGEMENT:

The Road Commission provides for its employees dental/optical reimbursement programs for regular full-time employees, spouses and dependent children under nineteen (19) years of age. Based on their bargaining unit employees may be reimbursed for dental and/or optical up to \$650 for bills or apply their reimbursement amount to the cost of the insurance premium.

The Road Commission carries commercial insurance for all risks of loss, including life, disability and health insurance, workers' compensation, automobile liability, errors or omissions liability and bodily injury, property damage, personal injury liability and property (building and grounds). The amount of settlements (claims) for the past three years have not exceeded insurance coverage.

LAPEER COUNTY ROAD COMMISSION
A Component Unit of Lapeer County, Michigan

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2006

NOTE 15 – EQUIPMENT EXPENDITURE/EXPENSE NET BALANCE:

The Road Commission, in compliance with the Uniform Accounting Procedures Manual for Michigan County Road Commissions charges rental on Road Commission equipment used for various construction and maintenance projects performed by the Road Commission. The cost for this rental, which is based on a rental rate per hour established by the Michigan Department of Transportation multiplied by rental hours, is reported as an expenditure/expense in the various maintenance activities. An expenditure/expense credit is reported as an offset against the equipment expenditure/expense activities. Accordingly, the equipment rental does not affect total expenditures/expense or the available operating equity of the Road Commission's General Operating Fund. The net balance for the year ended December 31, 2006 is as follows:

	<u>Governmental Fund</u>	<u>Statement of Activities</u>
Equipment –		
Direct	\$ 1,605,889	\$ 838,983
Indirect	546,673	521,592
Operating	<u>362,236</u>	<u>362,236</u>
	2,514,798	1,722,811
Less-equipment rental	<u>1,966,199</u>	<u>1,966,199</u>
	<u>\$ 548,599</u>	<u>\$(243,388)</u>

NOTE 16 – CAPITAL OUTLAY EXPENDITURES BALANCE:

On the governmental financial statements, the Road Commission reports a depreciation credit as an offset to capital outlay as a result of charging depreciation to various expenditure accounts as explained in Note 1. Retirements are also reported as a credit against capital outlay. The balance at December 31, 2006 consists of the following:

Capital Outlay –	
Land improvements, building and equipment	\$ 88,803
Less - depreciation/depletion	(817,568)
- retirements	<u>(4,621)</u>
	<u>\$(733,386)</u>

SUPPLEMENTARY INFORMATION

LAPEER COUNTY ROAD COMMISSION
A Component Unit of Lapeer County, Michigan

DETAIL SCHEDULE OF REVENUES AND OTHER SOURCES
GENERAL OPERATING FUND
FOR THE YEARS ENDED DECEMBER 31, 2006

	<u>2006</u>	<u>2005</u>
Revenues:		
Permits	\$ 125,752	\$ 161,124
Federal Sources -		
Federal aid secondary	<u>502,328</u>	<u>762,017</u>
State Sources -		
Motor Vehicle Highway Funds - Act 51 -		
Engineering	10,000	10,000
Primary roads	4,350,276	4,445,616
Local roads	2,372,411	2,382,186
Primary urban roads	146,808	151,404
Local urban roads	63,307	63,604
Federal Aid Funds sold to State	567,376	802,743
Critical Bridge	<u>20,196</u>	<u>128,014</u>
	<u>7,530,374</u>	<u>7,983,567</u>
Local Sources -		
Township contributions	1,843,009	1,898,353
County appropriation	<u>238,746</u>	<u>269,989</u>
	<u>2,081,755</u>	<u>2,168,342</u>
Charges for Services -		
Trunkline maintenance	855,689	1,031,658
Trunkline nonmaintenance	1,780,738	184,868
Salvage sales	5,752	17,498
Other	<u>278,911</u>	<u>219,320</u>
	<u>2,921,090</u>	<u>1,453,344</u>
Interest and rents	<u>90,735</u>	<u>62,502</u>
Other -		
Gain on equipment disposal	77,773	69,673
Other	<u>61,211</u>	<u>10,897</u>
	<u>138,984</u>	<u>80,570</u>
Total Revenues	<u>13,391,018</u>	<u>12,671,466</u>
Other Financing Sources:		
Note Proceeds	<u>-</u>	<u>1,419,191</u>
Total Revenues and other sources	<u><u>13,391,018</u></u>	<u><u>14,090,657</u></u>

LAPEER COUNTY ROAD COMMISSION
A Component Unit of Lapeer County, Michigan

DETAIL SCHEDULE OF EXPENDITURES
GENERAL OPERATING FUND
FOR THE YEARS ENDED DECEMBER 31, 2006

	<u>2006</u>	<u>2005</u>
Expenditures:		
Preservation - Structural Improvements		
Primary roads and structures	\$ 2,467,174	\$ 3,184,525
Local roads and structures	<u>1,157,359</u>	<u>2,461,165</u>
	<u>3,624,533</u>	<u>5,645,690</u>
Maintenance -		
Primary roads and structures,		
winter and traffic control	1,656,431	1,923,240
Local roads and structures,		
winter and traffic control	<u>2,891,269</u>	<u>2,794,309</u>
	<u>4,547,700</u>	<u>4,717,549</u>
State Maintenance -		
Trunkline maintenance	855,689	1,031,658
Truckline nonmaintenance	<u>1,780,718</u>	<u>184,868</u>
	<u>2,636,407</u>	<u>1,216,526</u>
Administrative -		
Administration	947,473	896,758
Less - handling	(12,570)	(15,080)
- overhead	(253,263)	(120,545)
- purchase discounts	<u>(99)</u>	<u>-</u>
	<u>681,541</u>	<u>761,133</u>
Equipment -		
Direct	1,605,889	1,603,879
Indirect	546,673	484,883
Operating	362,236	349,324
Less- equipment rental	<u>(1,966,199)</u>	<u>(2,181,669)</u>
	<u>548,599</u>	<u>256,417</u>
Other -		
Services	<u>337,099</u>	<u>763,258</u>
Capital Outlay -		
Land improvements, building		
and equipment	88,803	1,894,491
Less - depreciation	(817,568)	(786,005)
- retirements	<u>(4,621)</u>	<u>(70,640)</u>
	<u>(733,386)</u>	<u>1,037,846</u>
Debt Service -		
Principal retirement	773,838	528,400
Interest and fiscal charges	<u>159,102</u>	<u>136,205</u>
	<u>932,940</u>	<u>664,605</u>
Total Expenditures	<u><u>\$ 12,575,433</u></u>	<u><u>\$ 15,063,024</u></u>

LAPEER COUNTY ROAD COMMISSION
A Component Unit of Lapeer County, Michigan

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BY FUND BALANCE SUB-ACCOUNTS
GENERAL OPERATING FUND
FOR THE YEAR ENDED DECEMBER 31, 2006

	<u>Primary</u>	<u>Local</u>	<u>County</u>	<u>Total</u>
Revenues:				
Licenses and permits	\$ -	\$ -	\$ 125,752	\$ 125,752
Intergovernmental -				
Federal Sources	382,000	120,328	-	502,328
State Sources	5,088,628	2,441,746	-	7,530,374
Local Sources	-	2,081,755	-	2,081,755
Charges for Services	2,636,427	-	284,663	2,921,090
Interest & rents	-	-	90,735	90,735
Other	-		138,984	138,984
Total Revenues	<u>8,107,055</u>	<u>4,643,829</u>	<u>640,134</u>	<u>13,391,018</u>
Expenditures:				
Preservation - Structural Improvements	2,467,174	1,157,359	-	3,624,533
Maintenance	1,656,431	2,891,269	-	4,547,700
Other -				
Trunkline maintenance	855,689	-	-	855,689
Trunkline nonmaintenance	1,780,718	-	-	1,780,718
Administrative - net	343,897	337,644	-	681,541
Equipment - net	247,527	269,583	31,489	548,599
Other	-	-	337,099	337,099
Capital outlay - net	-	-	(733,386)	(733,386)
Debt principal	301,797	85,122	386,919	773,838
Interest	62,050	17,501	79,551	159,102
Total Expenditures	<u>7,715,283</u>	<u>4,758,478</u>	<u>101,672</u>	<u>12,575,433</u>
Excess of revenues over (under) expenditures	391,772	(114,649)	538,462	815,585
Fund Balance at January 1, 2006	<u>1,434,605</u>	<u>357,586</u>	<u>663,549</u>	<u>2,455,740</u>
Fund Balance at December 31, 2006	<u><u>\$ 1,826,377</u></u>	<u><u>\$ 242,937</u></u>	<u><u>\$ 1,202,011</u></u>	<u><u>\$ 3,271,325</u></u>

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING
STANDARDS***

To the Board of County Road Commissioners
of Lapeer County
Lapeer, Michigan

We have audited the financial statements of Lapeer County Road Commission as of and for the year ended December 31, 2006, and have issued our report thereon, dated May 21, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered Lapeer County Road Commission's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Lapeer County Road Commission's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Lapeer County Road Commission's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects Lapeer County Road Commission's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Lapeer County Road Commission's financial statements that is more than inconsequential will not be prevented or detected by the Lapeer County Road Commission's internal control. We consider the deficiency described below to be a significant deficiency in internal control over financial reporting:

The Road Commission prepares various financial information throughout the year to assess operations and the financial condition of the Road Commission. However, prior to the closing of the year end and preparation of the MDOT ACT 51 Report, several entries material to the financial statements were proposed by our firm. Also, the Road Commission relies on our firm to assist in reporting the annual financial report in accordance with Generally Accepted Accounting Principles.

The Road Commission has individuals on staff to review that the financial report is accurate and the financial information reflects the recording of the proposed entries, however, not to review and determine that the financial report is a complete presentation in accordance with Generally Accepted Accounting Principles. As a result, the Road Commission is considered to have a significant control deficiency, since reporting errors or omissions could occur in the preparation of the annual financial report that would be departures from Generally Accepted Accounting Principles and the Road Commission would not be in a position to detect the errors or omissions.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Lapeer County Road Commission's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that the significant deficiency described above is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Lapeer County Road Commission's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under ***Government Auditing Standards***.

We noted certain matters that we reported to management of the Lapeer County Road Commission in a separate letter dated May 21, 2007.

This report is intended for the information and use of the management and Board of County Road Commissioners of Lapeer County, Michigan and the Michigan Department of Treasury and is not intended to be and should not be used by anyone other than these specified parties.



Certified Public Accountants

May 21, 2007

MANAGEMENT LETTER

To the Board of County Road Commissioners
of Lapeer County
Lapeer, Michigan

We have recently completed our audit of the basic financial statements of the Lapeer County Road Commission as of and for the year ended December 31, 2006. In connection with the audit, we believe that certain changes in your accounting procedures would be helpful in further improving management's control and the operational efficiency of the Road Commission's recordkeeping system or compliance with laws and regulations. These observations are a result of our evaluation of internal accounting control for audit purposes and our discussions with management. As noted in the ***Report on Internal Accounting Controls*** these observations were not considered significant deficiencies in relation to the basic financial statements of the Road Commission.

Adoption of an Investment Policy

The County Treasurer as the custodian of the Road Commission cash performs the investing under the County Investment policy.

The Michigan Department of Treasury believes that a Road Commission should have its own formal board approved investment policy that documents the Road Commission's policy on acceptable deposit and investment risks. The Road Commission should have the investment policy even with the County Treasurer being responsible for maintaining Road Commission cash.

We recommend that a formal investment policy be adopted by the County Board of Road Commissioners.

Public Hearing for General Appropriations Act

The Road Commission adopts a General Appropriations Act (Budget) at a Board of Road Commissioners public meeting, at which time citizens attending are allowed to comment. However, a separate public hearing is not held.

We recommend that the Board of Road Commissioners adopt the 2008 General Appropriations Act after a public hearing has been held to be in compliance with PA 2 of 1968, as amended.

Controls over Transfer Vouchers

At the present time, transfer vouchers (journal entries) include a description for the entry and are numbered and maintained in a binder for control purposes. However, not all transfer vouchers are required to be formally approved by a second individual.

Not having a procedure requiring that transfer vouchers be formally approved allows for the possibility of inaccurate financial reporting.

We recommend that the transfer vouchers be approved by an individual that is able to analyze the accompanying information supporting the entry. This may be accomplished by having different individuals reviewing transfer vouchers, or at a minimum, any transfers that are not standard entries.

These observations were considered in determining the nature, timing and extent of the audit tests applied in our audit of the December 31, 2006, financial statements. We have not considered internal control since the date of our report. It is important to remember that management is responsible for the design and implementation of programs and controls to prevent and detect fraud.

This report is intended solely for the information and use of management, the Road Commission Board, others with the Road Commission of Michigan, and the Michigan Department of Treasury and is not intended to be and should not be used by anyone other than these specified parties.

We wish to express our appreciation for the courtesy and cooperation extended to us during our examination. We are available to discuss these observations with you and to provide assistance in the implementation of improvements.

Sincerely,

A handwritten signature in cursive script, reading "Stewart Beausant Whipple".

May 21, 2007